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C O R R E C T E D C O P Y - ADD PARAGRAPHS 4 AND 5

EO 11652: GDS

TAGS: PN, PINT, PFOR

SUBJ: THE TORRIJOS REVOLUTION IN 1973: AN ASSESSMENT

REF: PANAMA A142

### INTRODUCTION

FOR TORRIJOS AND HIS REVOLUTION, THE PAST YEAR WAS ONE OF IMPORTANT ACCOMPLISHMENTS AND MOUNTING PROBLEMS. THIS MESSAGE SUMMARIZES OUR ASSESSMENT (A-42) OF SIGNIFICANT DEVELOPMENTS IN PANAMANIAN POLITICS AND THE NATURE AND DIRECTION OF TORRIJOS' REVOLUTION DURING 1973.

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SUMMARY. THE TEMPO OF THE REVOLUTION AIMED AT CHANGING PANAMA'S POLITICAL AND SOCIAL STRUCTURES AND INCORPORATING THE RURAL AND  
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URBAN POOR INTO THE NATIONAL SOCIETY INCREASED DURING 1973. A

SYSTEM OF REPRESENTATION AND CONSULTATION WAS IMPLEMENTED EMBODYING THE 505 ELECTED CORREGIMIENTO REPRESENTATIVES AND NEW UNITS OF LOCAL GOVERNMENT CALLED COMMUNAL JUNTAS WERE CREATED. THE PURPOSE OF THE JUNTAS IS TO DRAW PEOPLE INTO PARTICIPATION IN SOLVING THEIR OWN PROBLEMS THROUGH ORGANIZED COMMUNITY EFFORTS. CONCURRENTLY THE GOP'S PROGRAMS TO EXPAND RURAL HEALTH CENTERS, IMPROVE NUTRITION AND EDUCATION IN RURAL AREAS PROCEEDED. A NEW EFFORT TO CREATE "POLES OF DEVELOPMENT" AROUND SELECTED RURAL CITIES WAS LAUNCHED. THE ADMINISTRATIVE PERFORMANCE OF THE GOP IMPROVED DUE TO BETTER ORGANIZATION, IMPROVED DECISION MAKING PROCESSES AND THE INCREASED EXPERIENCE AND MATURITY OF TORRIJOS AND OTHER LEADERS. THE NATIONAL GUARD RETAINED ITS ROLE AS THE PILLAR OF THE REVOLUTION ALTHOUGH CORREGIMIENTO REPRESENTATIVES BEGAN TO PROVIDE ORGANIZED PROPULAR SUPPORT. THE ECONOMY CONTINUED GOOD ALTHOUGH INFLATION, SHORTAGES OF SOME FOOD ITEMS, AND A POLITICAL CONFRONTATION BETWEEN THE GOP AND POWERFUL ELEMENTS OF THE PRIVATE SECTOR, STIMULATED BY THE ANNOUNCEMENT OF A SERIES OF HOUSING LAWS DESIGNED TO STIMULATE LOW COST HOUSING, CAUSED SOME CONCERN. TORRIJOS SUCCESSFULLY STAGED THE U N SECURITY COUNCIL MEETING IN PANAMA BRINGING THE WORLD SPOTLIGHT TO BEAR ON THE CANAL ISSUE, THEN MOVED TOWARD ACCOMMODATION AND AGREEMENT ON PRINCIPLES TO GUIDE NEGOTIATIONS FOR A NEW TREATY DURING TALKS WITH AMBASSADOR BUNKER. BY THE END OF 1973 US-PANAMANIAN RELATIONS WERE BETTER THAN THEY HAD BEEN FOR YEARS. TORRIJOS' PROGRESS IN IMPLEMENTING THE REVOLUTION AND SUCCESS IN FOREIGN POLICY STRENGTHENED TORRIJOS POLITICALLY AMONG HIS SUPPORTERS BUT AT THE SAME TIME DREW UNPRECEDENTED OPPOSITION FROM CONSERVATIVES WHO FEARED HE WAS PERMANENTLY CONSOLIDATING HIS POWER. HE MANAGED TO BLUNT THE THRUST OF THE OPPOSITION WITH COMPROMISES AND PROMISES OF CONSULTATION BUT THE OPPOSITION, ALBEIT WEAKENED, CARRIED OVER INTO 1974. THE PROSPECTS FOR 1974 INCLUDE FURTHER EMPHASIS ON INCOME REDISTRIBUTION PROGRAMS, EDUCATION RFORM, HEALTH AND LOW INCOME HOUSING. AGRICULTURE WILL CONTINUE TO BE A PROBLEM AREA AND INFLATION CONTINUES. AID PROGRAMS WILL REMAIN IMPORTANT IN MAINTAINING A SUITABLE CLIMATE FOR CANAL TREATY NEGOTIATIONS AND THE GOP POSUTRE OF ACCOMMODATION WITH THE U S SHOULD CONTINUE, PROVIDED THAT THE U S SUCCEEDS IN GETTING CONGRESSIONAL APPROVAL OF THE TRANSFER OF OLD AND NEW FRANCE FIELDS AND MAINTAINS THE MOMENTUM IN THE NEGOTIATIONS. ACCOMPLISH-

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ING THIS WILL POSE MAJOR CHALLENGES FOR U S POLICY AND DIPLOMACY IN 1974. END SUMMARY.

1. A REVOLUTION DEFINED. WHEN THE OFFICERS OF THE NATIONAL GUARD (GN) SEIZED POWER ON OCT 11, 1968 THEY DID NOT INTEND TO INITIATE A REVOLUTION. BUT BECAUSE OF THEIR IDENTIFICATION WITH THE MIDDLE AND LOWER CLASSES, THE NATURE OF THE BN COMMANDER, BRIGADIER GENERAL OMAR TORRIJOS, AND THE NECESSITY OF

DEVELOPING A MIDDLE AND LOWER CLASS POLITICAL BASE TO BETTER CONFRONT THE UPPER CLASS OLIGARCHY WHICH THEY HAD OUSTED, THEY BEGAN A REVOLUTIONARY PROCESS AIMED AT TRANSFORMING AND MODERNIZING WHAT WAS ESSENTIALLY A 19TH CENTURY CAPITALIST ECONOMY AND SOCIETY.

EXPERIMENTATION AND PRAGMATISM RATHER THAN DOGMATISM HAVE BEEN DOMINANT CHARACTERISTICS OF THIS PROCESS. NO ATTEMPT HAS BEEN MADE TO ALTER FUNDAMENTALLY PANAMA'S ECONOMIC SYSTEM BASED ON BANKING AND INTERNATIONAL COMMERCE AND CHARACTERIZED BY FEW CONTROLS ON THE MOVEMENT OF TRADE AND CAPITAL. TO DO SO PRECIPITOUSLY WOULD PROVOKE ECONOMIC DISTRESS FOR PANAMA AND FORESHADOW THE END OF TORRIJOS' POLITICAL POWER.

2. A NEW OLIGARCHY - THE OFFICERS OF THE GN AND THOSE WHO SHARE POWER WITH THEM LED BY GENERAL TORRIJOS, IS RUNNING THE COUNTRY. THIS OLIGARCHY INCLUDES PEOPLE OF VARYING IDEOLOGIES UNITED BY A COMBINATION OF THEIR DESIRES FOR REFORM, NATIONAL INTEGRATION AND IMPROVEMENT OF THEIR PERSONAL ECONOMIC STATUS AS WELL AS THAT OF THE LOWER CLASSES. ONE OF TORRIJOS' ANNOUNCED GOALS IS TO CREATE A NATION OUT OF WHAT WAS A "GEOGRAPHICAL EXPRESSION," INCORPORATING ALL SECTORS, INCLUDING MARXISTS AND REBELS, INTO THE NATIONAL SOCIETY. A CHARACTERISTIC SLOGAN COINED BY TORRIJOS, ILLUSTRATIVE OF HIS PRAGMATISM AND APPROACH TO GOVERNMENT IS: "NEITHER WITH THE RIGHT NOR THE LEFT, BUT WITH BOTH HANDS FOR PANAMA." HE HAS STRESSED REFORMS AND PROGRAMS WHICH HE DESCRIBES AS NOT REQUIRING AN "EXCESSIVELY HIGH SOCIAL COST" WHILE CONTRIBUTING TO THE SOLUTION OF THE NATION'S PROBLEMS AND "FULFILLING THE ASPIRATIONS OF THE PANAMANIAN PEOPLE."

3. PROGRESS OF THE REVOLUTION IN 1973. COMMUNAL AND LOCAL JUNTAS WERE ESTABLISHED IN 1973 AS THE BASIC UNITS OF LOCAL GOVERNMENT PURSUANT TO PROVISIONS OF THE CONSTITUTION OF 1972. THEY BECAME THE VEHICLES THROUGH WHICH PEOPLE IN EACH COMMUNITY COULD

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PARTICIPATE IN THE SOLUTION OF THEIR COMMUNITY'S PROBLEMS. THE ELECTED CORREGIMIENTO REPRESENTATIVES, 505 IN ALL, SERVE AS CONDUCTORS OF COMMUNICATIONS FROM THE JUNTAS TO THE CENTRAL GOVERNMENT AND AS THE TRANSMITTERS OF THE CENTRAL AND PROVINCIAL GOVERNMENTS' EXPLANATIONS OF POLICY AND PROPAGANDA.

4. THE GOP'S DEVELOPMENT STRATEGY FOR RURAL AREAS IN 1973 INCLUDED BEGINNING AN EFFORT TO CONVERT SELECTED PROVINCIAL CITIES INTO "POLES OF DEVELOPMENT," THEREBY CREATING EMPLOYMENT AND CONDITIONS TO DETER THE MIGRATION FROM RURAL AREAS TO PANAMA CITY AND COLON. OTHER SPECIFIC MEASURES TO CHANGE CONDITIONS IN RURAL COMMUNITIES DURING 1973 INCLUDED THE ESTABLISHMENT OF ADDITIONAL RURAL HEALTH CENTERS, PROGRAMS FOR PROVIDING POTABLE WATER TO COMMUNITIES THROUGH A COMBINATION OF SELF-HELP AND GOVERNMENT ASSISTANCE, EXPANSION AND IMPROVEMENT OF EDUCATIONAL

FACILITIES, ADDITIONAL RURAL ROADS, THE PEASANT SETTLEMENT PROGRAM, PROVISION OF SMALL FARMER LOANS, AND PASSAGE OF LEGISLATION AUTHORIZING MUNICIPALITIES TO BORROW MONEY AND ENTER INTO JOINT VENTURES WITH PRIVATE INVESTORS TO PROMOTE LOCAL ECONOMIC DEVELOPMENT. THESE EFFORTS, SOME OF WHICH WERE FINANCED BY AID, IDB AND IBRD LOANS, CONSTITUTED A MAJOR EFFORT TO IMPROVE LIVING CONDITIONS IN RURAL AREAS.

5. NOT ALL OF THE GOP'S ATTENTION WAS DEVOTED TO THE RURAL AREAS. HOUSING PROGRAMS, BACKED BY DOMESTIC FINANCING, AID AND OTHER INTERNATIONAL AGENCIES, WERE DEVELOPED TO PROVIDE SORELY NEEDED HOUSING FOR MIDDLE AND LOW INCOME GROUPS. TO NEGATE THE EFFECTS OF INFLATION ON THE URBAN POPULATION, THE GOP CONTROLLED THE PRICES OF FOOD PRODUCTS, THUS IN PART WEAKENING ITS POLICY OF MAXIMIZING INCOMES IN THE RURAL AREAS.

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6. ADMINISTRATIVE PERFORMANCE AND ORGANIZATION. IMPROVED DECISION MAKING PROCEDURES AND MANAGEMENT, THE CENTRALIZATION OF PLANNING AND ECONOMIC POLICY FUNCTIONS IN A NEW MINISTRY UNDER CAPABLE DIRECTION, AND IMPROVED ORGANIZATION IN SEVERAL MINISTRIES RESULTED IN AN OVERALL IMPROVEMENT IN THE GOP'S MANAGERIAL

PERFORMANCE IN 1973. STRENGTH WAS EVIDENT IN THE MINISTRIES INVOLVING PLANNING AND ECONOMIC POLICY, HEALTH, EDUCATION, HOUSING AND FINANCE. THE LABOR MINISTRY ALSO RECEIVED CAPABLE DIRECTION, BUT IT REMAINED WEAK AT ITS LOWER LEVELS. DUE TO A CONSOLIDATION OF FUNCTIONS, SOME IMPROVEMENTS WERE MADE IN THE AGRICULTURE MINISTRY, ALTHOUGH IT REMAINED THE PRINCIPAL PROBLEM AREA OF THE GOP BECAUSE OF AN UNRESOLVED IDEOLOGICAL POWER STRUGGLE TAKING PLACE WITHIN IT.

7. WHILE CENTRALIZING AND TIGHTENING UP ON DECISION MAKING AND PLANNING, TORRIJOS STRESSED ADMINISTRATIVE DECENTRALIZATION IN PROGRAM EXECUTION IN KEEPING WITH HIS THEORY THAT "GOVERNMENT SHOULD BE CLOSE TO THE PEOPLE." THIS WAS COMPLEMENTARY TO THE EFFORT TO CREATE "POLIES OF DEVELOPMENT" STIMULATING THE GROWTH OF LIGHT INDUSTRY, AGRO-BUSINESS AND OTHER ECONOMIC AND SOCIAL

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ACTIVITIES AROUND SELECTED PROVINCIAL CITIES. ACCORDINGLY, THE MINISTRY OF EDUCATION AND THE MINISTRY OF HEALTH SET UP REGIONAL OFFICES, THE FORMER UNDER AID FINANCING, AND THE MINISTRY OF COMMERCE AND INDUSTRY OPENED OFFICES IN TWO CITIES OF THE INTERIOR. TORRIJOS DID NOT STOP WITH MERELY ADMINISTRATIVE DECENTRALIZATION, BUT HAS ANNOUNCED THAT THE HEADQUARTERS OF TWO MINISTRIES, AGRICULTURAL DEVELOPMENT (MIDA) AND PUBLIC WORKS, WILL BE TRANSFERRED TO SANTIAGO AND DAVID RESPECTIVELY. THE GOP PROBABLY WILL DISCOVER THAT THE REMOVAL OF MINISTRIES WILL NOT WORK, BUT IT CONSIDERS THAT SUCH DRASTIC MEASURES ARE NECESSARY TO GENERATE DEVELOPMENT AND, IN MIDA'S CASE, TO BREAK OLD HABITS OF RUNNING AGRICULTURE FROM A DESK IN PANAMA CITY.

8. INFLUENTIAL LEADERS, INSTITUTIONS AND GROUPS. TORRIJOS HAS MATURED AND IN 1973 EXHIBITED INCREASED SELF-CONFIDENCE IN HIS ABILITY TO EXERCISE POWER. BECAUSE THE NEW CONSTITUTION PROVIDED A STRUCTURAL FRAMEWORK FOR DECISION MAKING, HIS DECISIONS AND LEADERSHIP HAD LESS OF AN AD HOC NATURE THAN BEFORE. THE SYSTEM OF CORREGIMIENTO REPRESENTATIVES PROVIDED HIM WITH A BASIS FOR BUILDING ORGANIZED POLITICAL SUPPORT. HE REMAINED, HOWEVER, UNWILLING TO PERMIT ANY ORGANIZATION AT THE NATIONAL LEVEL THAT COULD THREATEN HIS CONTROL.

9. PRESIDENT LAKAS WAS ACTIVE IN ADMINISTRATIVE MATTERS BUT ON CRUCIAL POLICY ISSUES REMAINED PRESIDENT IN NAME ONLY. OF THE CABINET, THE TWO MINISTERS WHO EXERCISED THE GREATEST OVERALL INFLUENCE WERE FOREIGN MINISTER JAUN ANTONIO TACK AND MINISTER OF PLANNING AND ECONOMIC POLICY NICOLAS ARDITO BARLETTA. THE PANAMANIAN AMBASSADOR TO WASHINGTON EMERGED AS A KEY FIGURE IN ADVISING TORRIJOS ON CANAL TREATY MATTERS.

10. THE GN RETAINED ITS ROLE AS THE PILLAR OF THE REVOLUTION AND

REMAINED UNITED BEHIND TORRIJOS AND HIS POLICIES. MORALE, WHICH MAY HAVE DIPPED SOMEWHAT EARLY IN THE YEAR, WAS HIGH BY THE END OF 1973. THE GN PROVIDED A CONTINGENT OF 400 MEN FOR THE UNEF PEACEKEEPING FORCE IN THE MIDDLE EAST. ITS STRENGTH ROSE FROM ABOUT 7000 TO 7867. ALTHOUGH THE GN BECAME INVOLVED IN FEWER OF THE DAY TO DAY PROBLEMS OF GOVERNMENT, ITS GENERAL STAFF INVARIABLY WAS CONSULTED ON MAJOR POLICY DECISIONS.

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11. ONE OF THE MOST IMPORTANT INTERNAL DEVELOPMENTS OF THE YEAR WAS THE IMPLEMENTATION OF THE SYSTEM OF CONSULTATION AND REPRESENTATION COMPOSED OF THE ELECTED CORREGIMIENTO REPRESENTATIVES. THEY EMERGED AS INFLUENTIAL FIGURES AT THE COMMUNITY AND PROVINCIAL LEVELS. THEY ARE TO PROVIDE A POLITICAL BASE AND HAVE SOME INFLUENCE ON GOP PROGRAMS. THEY PARTICIPATED IN THE PROCESS OF PLANNING THE GOP INVESTMENT BUDGET FOR 1974 AND WERE SUCCESSFUL IN GETTING FUNDS INCLUDED FOR PROJECTS IN 395 OF THE 505 CORREGIMIENTOS. WHEN CONFRONTED WITH NATIONAL PROBLEMS DURING THE MONTH-LONG SESSION OF THE NATIONAL ASSEMBLY OF CORREGIMIENTO REPRESENTATIVES (NACR), HOWEVER, THE REPRESENTATIVES SHOWED LESS COMPETENCE THAN THEY EXHIBITED IN DEALING WITH MORE FAMILIAR PROBLEMS AT THE PROVINCIAL AND LOCAL LEVELS. NEVERTHELESS, BECAUSE OF STRONGER LEADERSHIP THEIR PERFORMANCE DURING THE 1973 NACR SESSION WAS BETTER THAN IT HAD BEEN THE PREVIOUS YEAR.

12. THE NINE-MEMBER NATIONAL LEGISLATIVE COMMISSION (NLC) WAS THE CUTTING EDGE OF THE REVOLUTION, EXERCISING AN IMPORTANT INFLUENCE ON GOP POLICIES. TORRIJOS MET WITH ITS MEMBERS FREQUENTLY AND THEY ALMOST INVARIABLY PARTICIPATED IN HIS MEETINGS WITH THE CABINET. ITS PRESIDENT, MARCELINO JAEN, IS ONE OF THE KEY FIGURES IN THE GOP. THE LEFTIST ORIENTATION OF SEVERAL OF THE MEMBERS OF THE COMMISSION WAS A PRINCIPAL SOURCE OF ANXIETY IN THE PRIVATE SECTOR.

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13. THE LEFTIST-LED STUDENT MOVEMENT AND THE COMMUNIST PEOPLES PARTY (PDP) APPEARED TO BE INCREASING THEIR INFLUENCE EARLY IN THE YEAR, BUT AFTER THE STUDENTS PROVOKED A CRISIS IN CHIRIQUI PROVINCE AND TORRIJOS WAS FORCED TO OUST THE COMMUNIST PROVINCIAL GOVERNOR AND OTHER LEFTISTS IN CHIRIQUI, THEY WERE PLACED ON THE DEFENSIVE. (PDP LEADERS DISASSOCIATED THEMSELVES FROM THE STUDENT ACTIONS IN CHIRIQUI.) THE YEAR ENDED WITH BOTH GROUPS IN WEAKER POSITIONS THAN THEY HAD ENJOYED A YEAR EARLIER. THEY WERE, HOWEVER, ENDEAVORING TO GET BACK IN TORRIJOS' GOOD GRACES BY DEMONSTRATING SUPPORT FOR HIM.

14. THE CATHOLIC CHURCH DID NOT EXERT AN IMPORTANT INFLUENCE ON GOP POLICIES. HOWEVER, THE CHURCH AND TORRIJOS APPEAR TO HAVE REACHED A MODUS VIVENDI, PUTTING THE BITTER MEMORIS OF FATHER HECTOR GALLEGO'S DISAPPEARANCE IN 1971 BEHIND THEM. THE RECONCILIATION WAS DUE IN PART TO THE CHURCH'S SUPPORT ABROAD FOR TORRIJOS' POLICY ON THE CANAL ISSUE AND WAS EFFECTED DURING TORRIJOS' VISIT TO THE VATICAN IN SEPTEMBER.

15. RAPID GROWTH CHARACTERIZED THE LABOR MOVEMENT. UNION MEMBER-  
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SHIP INCREASED BY ABOUT 30 PERCENT AND THE NUMBER OF COLLECTIVE BARGAINING AGREEMENTS NEARLY DOUBLED. THIS IMPRESSIVE GROWTH WAS MAINLY THE RESULT OF CONDITIONS CREATED BY THE GOP RATHER THAN TO THE DYNAMISM OF THE MOVEMENT ITSELF. OF THE THREE LABOR CONFEDERATIONS, ONLY THE CHRISTIAN CENTRAL ISTEMENA DE TRABAJADORES (CIT) HAD DYNAMIC LEADERSHIP AND AT TIMES OVERTLY OPPOSED THE GOP. TORRIJOS DOES NOT WANT A UNITED LABOR MOVEMENT THAT COULD CHALLENGE HIS POWER; THEREFORE, THE EXISTENCE OF THESE

RIVAL CONFEDERATIONS IS IDEAL FOR HIM.

16. NARCOTICS CONTROL. IMPORTANT PROGRESS WAS ACHIEVED IN CONTROLLING NARCOTICS TRAFFICKING. THE GOP DEVELOPED ITS CAPABILITIES IN THIS AREA WITH U S ADVICE AND ASSISTANCE AND TOOK A HARD-LINE ATTITUDE IN ENFORCEMENT. NUMEROUS ARRESTS OF TRAFFICKERS WERE MADE AND ONE OF THE TWO OR THREE TOP NARCOTICS TRAFFICKERS IN PANAMA WAS DEPORTED. COOPERATION BETWEEN PANAMANIAN AND U S NARCOTICS ENFORCEMENT OFFICIALS COULD HARDLY HAVE BEEN BETTER.

17. THE ECONOMY. THE PANAMANIAN ECONOMY CONTINUED TO EXPAND, WITH GDP UP ABOUT 6.5 PERCENT. THE NUMBER OF BANKS INCREASED TO 55 AND DEPOSITS WERE 29 PERCENT ABOVE 1972. A SUCCESSFUL EXTERNAL DEBT REFINANCING OPERATION INVOLVING A \$115 MILLION LOAN WAS CARRIED OUT BY THE GOP, THEREBY REDUCING ITS DEBT SERVICE OBLIGATIONS FROM OVER 30 TO 21 PERCENT OF CURRENT REVENUES. IT AGAIN HAD AN AMBITIOUS PUBLIC SECTOR INVESTMENT PROGRAM AIMED AT STIMULATING DEVELOPMENT IN IMPORVERISHED RURAL AND URBAN AREAS WHILE PROMOTING OVERALL GROWTH. CONSTRUCTION REMAINED THE MAINSTAY OF THE PRIVATE SECTOR'S EFFORTS. INFLATION, FUELED BY THE INCREASING COST OF IMPORTED GOODS, THE BOOM IN CONSTRUCTION, AND SHORTAGES IN THE DOMESTIC PRODUCTION OF SOME FOOD ITEMS, CAUSED SOME CONCERN.

18. A NUMBER OF FACTORS INCREASED UNCERTAINTY IN THE PRIVATE SECTOR. PRINCIPAL ONES WERE THE GOPS' REFORM PROGRAMS, INFORMAL RELATIONSHIPS WITH CUBA, AND ITS FAILURE TO CONSULT WITH BUSINESSMEN BEFORE TAKING DECISIONS AFFECTING THE ECONOMY. THE GOP'S HARD-CORE OPPONENTS CAPITALIZED ON ITS CLUMSY HANDLING OF A NEW SERIES OF HOUSING LAWS DESIGNED TO PROMOTE CONSTRUCTION OF LOW INCOME HOUSING IN OCTOBER BY PLAYING ON FEARS CONCERNING THE GOP'S ULTIMATE INTENTIONS TOWARD THE PRIVATE SECTOR. ALTHOUGH THE ECONOMY WAS JOLTED SOMEWHAT BY THE CONTROVERSY, THE CONFIDENTIAL

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SITUATION SUBSEQUENTLY CALMED CONSIDERABLY.

19. FOREIGN POLICY AND U S-PANAMANIAN RELATIONS. FOR PANAMANIAN FOREIGN POLICY 1973 WAS A VERY GOOD YEAR, A YEAR FOR COMING OF AGE. EXPLOITING ITS STATUS AS A SMALL COUNTRY WITH A BID ISSUE, PANAMA MOBILIZED ITS RESOURCES AND GAVE PRIORITY TO THE CANAL ISSUE AS NEVER BEFORE. WHILE OTHER INTERESTS WERE ALSO AT PLAY, THE PRINCIPAL THRUST OF GOP POLICY CENTERED ON BUILDING INTERNATIONAL SUPPORT FOR ITS POSITION AND BRINGING THAT SUPPORT TO BEAR IN ITS NEGOTIATIONS WITH THE UNITED STATES. THIS WAS A TWO-PHASE EFFORT: THE FIRST WAS DEVOTED TO STRIDENTLY PROPELLING THE CANAL ISSUE INTO INTERNATIONAL STATUS, THE SECOND WAS TO MOVE TO CONSOLIDATE AND EXPLOIT THIS NEW FOUND SUPPORT IN RENEWED NEGOTIATIONS. TO ACCOMPLISH THE LATTER, PANAMA MOVED FROM CONFRONTATION BACK INTO DIALOGUE ON THE CANAL ISSUE, THUS



ADOPTING A COURSE THE EMBASSY HAD PERSISTENTLY ADVOCATED.  
WHILE THE GOP'S ABILITY TO EXERCISE RESTRAINT WAS A WELCOME SIGN  
OF MATURITY, ITS CAPACITY TO INCITE INTERNATIONAL OPINION WAS A  
STRONG TASTE OF WHAT TO EXPECT FROM PANAMA IN THE WORLD  
ARENA SHOULD THE PRESENT NEGOTIATIONS FAIL OR SERIOUSLY FALTER.

20. FOR PANAMA, THE HOLDING OF THE UN SECURITY COUNCIL MEETING  
REPRESENTED THE HIGH POINT OF THE FIRST PHASE OF ITS EFFORTS, AND  
THE TALKS WITH AMBASSADOR BUNKER AND SECRETARY KISSINGER'S VISIT  
TO SIGN AN AGREEMENT ON PRINCIPLES FOR CONDUCTING NEGOTIATIONS  
WAS THE CULMINATION OF THE SECOND PHASE. THE SUCCESS WITH THE  
SECURITY COUNCIL HELPED TO REDUCE PANAMA'S INFERIORITY COMPLEX AND  
WAS A STEP TOWARD THE CREATION OF A SENSE OF NATIONHOOD SO MUCH  
DESIRED BY PANAMA'S LEADERS. IT ALSO GAVE TORRIJOS THE POLITICAL  
BASIS HE NEEDED AMONG STUDENTS AND NATIONALISTS TO MOVE BACK  
TOWARD ACTIVE NEGOTIATIONS WITH THE US.

21. THE APPOINTMENTS OF DR. KISSINGER AS SECRETARY OF STATE AND  
AMBASSADOR BUNKER AS CHIEF NEGOTIATOR PERSUADED TORRIJOS THAT THE  
CANAL ISSUE HAD RECEIVED A HIGHER PLACE ON THE U S PRIORITY  
SCALE. ADDED TO THE U S EMBASSY'S CONTINUING EFFORTS TO FOSTER  
A CLIMATE IN WHICH NEGOTIATIONS COULD TAKE PLACE, THESE DEVELOP-  
MENTS INDUCED TORRIJOS TO GIVE NEGOTIATIONS A SERIOUS TRY.

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22. IN INTER-AMERICAN AFFAIRS PANAMA MOVED INCREASINGLY CLOSE  
TO PERU AND JOINED WITH PERU AND OTHERS IN ADVOCATING A DRASTIC  
REVISION OF THE ORGANIZATION OF AMERICAN STATES. TORRIJOS VISITED

PERU AND ARGENTINA, THEREBY EXPANDING HIS IMAGE AS A KEY LATIN AMERICAN AND THRID WORLD LEADER; PANAMA ALSO COURTED THRID WORLD COUNTRIES, EXPANDED ITS DIPLOMATIC RELATIONS WITH COMMUNIST COUNTRIES, MAINTAINED INFORMAL RELATIONS WITH CUBA AND HAD CONTACTS WITH THE PEOPLES REPUBLIC OF CHINA WHILE MAINTAINING FORMAL RELATIONS WITH THE TAIWAN GOVERNMENT.

23. POLITICAL PROBLEMS. TORRIJOS MAINTAINED SUPPORT FOR HIS GOVERNMENT AND HIS PERSONAL POPULARITY AMONG THE LOWER AND MIDDLE CLASSES, THROUGH A COMBINATION OF HIS FOREIGN POLICY SUCCESSES AND THE PROGRESS ACHIEVED IN IMPLEMENTING THE REVOLUTION. THE LATTER, HOWEVER, COUPLED WITH THE TENDENCY OF GOP LEADERS TO ACT PRECIPITOUSLY WITHOUT ADEQUATELY CONSULTING THE PRIVATE SECTOR, CONTRIBUTED TO THE CREATION OF A WAVE OF CONSERVATIVE OPPOSITION LATE IN THE YEAR. THROUGHOUT THE YEAR TORRIJOS' CONSERVATIVE OPPONENTS IN THE NATIONAL COUNCIL OF PRIVATE ENTERPRISE (CONEP) EXERTED PRESSURES ON THE GOP THROUGH A SERIES OF PUBLIC MEETINGS AND FORUMS IN WHICH  
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VARIOUS GOP PROGRAMS WERE CRITICIZED. ALSO, BENEATH THE SURFACE, THE FRENTE CIVILISTA NACIONAL (FACN). COMPOSED MAINLY OF MEMBERS OF FORMER POLITICAL PARTIES, CARRIED ON A CAMPAIGN OF ANTI-TORRIJOS, ANTI-GN PROPAGANDA. BOTH CONEP AND THE FCN, IN THEIR OWN WAYS, SOUGHT TO AMPLIFY AND EXPLOIT THE UNCERTAINTY AND FEARS FELT BY MANY BUSINESSMEN CONCERNING THE BASIC DIRECTION OF THE GOP AND TO THEREBY DEVELOP A BROAD OPPOSITION. AN OPPORTUNITY PRESENTED ITSELF WITH THE ANNOUNCEMENT BY THE GOP OF A SERIES OF NEW HOUSING LAWS IN OCTOBER. CONEP AND THE FCN SEIZED ON THE HOUSING LAWS AND BEGAN AN INTENSE EFFORT TO MOUNT OPPOSITION TO AND UNDERMINE PUBLIC CONFIDENCE IN THE GOP. CONEP FORMED A NATIONAL CIVIC FRONT (NCM) COMPOSED OF 30-35 PROFESSIONAL, CIVIL AND BUSINESS ORGANIZATIONS WITH THE DECLARED PURPOSE OF APPLYING PRESSURE ON THE GOP AND AROUSING PUBLIC OPINION. THROUGH A SERIES OF MANEUVERS AND COMPROMISES, THE GOP BLUNTED THE OFFENSIVE, AND BY ENTERING INTO A DIALOGUE WITH GROUPS OF THE PRIVATE SECTOR, SUCCEEDED IN CALMING THE SITUATION SOMEWHAT.

24. OUTLOOK FOR 1974. THE DOMINANT TRENDS ESTABLISHED IN 1973 WILL CONTINUE IN 1974. ADDITIONAL REFORMS, INCLUDING LEGISLATION AFFECTING THE EDUCATIONAL SYSTEM, WILL BE PUSHED BY THE LEGISLATIVE COMMISSION, AND THE CORREGIMIENTO REPRESENTATIVES' INFLUENCE ON GOP PROGRAMS WILL INCREASINGLY BE FELT. THERE WILL BE FURTHER EMPHASIS ON PROGRAMS INVOLVING INCOME REDISTRIBUTION, HEALTH, NUTRITION AND EDUCATION PROJECTS IN RURAL AREAS AND LOW INCOME HOUSING IN THE CITIES. WHETHER THE GOP'S CURRENT EFFORTS TO RESTORE THE CONFIDENCE OF INVESTORS HAVE SUCCEEDED WILL NOT BE KNOWN UNTIL THE SECOND AND THIRD QUARTERS OF 1974 BECAUSE THE CONSTRUCTION INDUSTRY'S MOMENTUM FROM PROJECTS INITIATED IN 1973 WILL CARRY ON UNTIL THEN. COMPLICATING THE ECONOMIC PICTURE ARE CONTINUED PROSPECTS FOR INFLATION, ONGOING EFFORTS OF THE HARD CORE OPPOSITION TO UNDER-

MINE CONFIDENCE IN THE TORRIJOS GOVERNMENT, PLUS THE TENDENCY OF THE GOP TO ACT PRECIPITOUSLY.

25. MODERATE ECONOMIC PROBLEMS, PLUS INCREASED RELIANCE UPON THE RURAL-ORIENTED CORREGIMIENTO REPRESENTATIVES AS A POLITICAL BASE SHOULD HELP MAINTAIN TORRIJOS' MANEUVERING ROOM ON THE CANAL TREATY ISSUE, AS THE REPRESENTATIVES' INTEREST IS CENTERED ON REFORMS AND DEVELOPMENT PROGRAMS. THE MORE TORRIJOS CAN COUNT ON THEIR SUPPORT THE LESS HE WILL NEED TO RELY ON THE MORE NATIONALISTIC STUDENTS AND  
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MIDDLE CLASS URBAN POPULATION ALONG THE CANAL. THE AID PROGRAMS IN SUPPORT OF DEVELOPMENT OF RURAL AREAS, EDUCATION, HEALTH, AND LOW INCOME HOUSING REMAIN IMPORTANT IN DEVELOPING AND MAINTAINING A HEALTHY ENVIRONMENT IN PANAMA. THESE THINGS, TOGETHER WITH TORRIJOS' POLITICAL NEED TO SHOW PROGRESS IN THE NEGOTIATIONS, SHOULD BE INCENTIVES FOR ACCOMMODATION. THE POSTURE OF ACCOMMODATION, HOWEVER, CARRIES WITH IT CERTAIN PROBLEMS. TORRIJOS IS NOW DRAWING DOWN ON THE POLITICAL CAPITAL CREATED IN NATIONALIST CIRCLES DURING THE PERIOD OF CONTRONTATION. AS THE NEGOTIATIONS GO ON HIS OPPONENTS AND ULTRANATIONALISTS OF ALL POLITICAL PERSUASIONS WILL BEGIN TO QUESTION THE CORRECTNESS OF THIS POLICY. SHOULD THE TRANSFERS OF NEW AND OLD FRANCE FIELDS FAIL TO GET CONGRESSIONAL APPROVAL IN THE U.S., THE ADVERSE REACTION IN PANAMA CAN BE EXPECTED TO BE STRONG, AND COULD WEAKEN TORRIJOS' POSTURE OF ACCOMMODATION WITH THE U.S. THE MAINTENANCE OF MOMENTUM IN THE NEGOTIATIONS IS ESSENTIAL IF OUR RELATIONSHIP IS TO BE MODERNIZED AND A MUTUALLY SATISFACTORY TREATY CONCLUDED. DOING SO WILL BE A CHALLENGE FOR U.S. POLICY AND DIPLOMACY IN 1974.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT OVERTHROW, JUNTA, GOVERNMENT REFORM, COMMUNITY DEVELOPMENT, POLITICAL STABILITY, POLITICAL SITUATION, SOCIAL CHANGE, MEETINGS, NEGOTIATIONS, OPPOSITION PARTIES, PROGRAMS (PROJECTS), POLITICAL LEADERS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 FEB 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974PANAMA01195  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** n/a  
**From:** PANAMA  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1974/newtext/t1974023/aaaaacag.tel  
**Line Count:** 580  
**Locator:** TEXT ON-LINE  
**Office:** ACTION ARA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 11  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** PANAMA A142  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 11 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <11 SEP 2002 by kelleyw0>; APPROVED <09 DEC 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** THE TORRIJOS REVOLUTION IN 1973: AN ASSESSMENT  
**TAGS:** PINT, PFOR, PN, (TORRIJOS HERREERA, OMAR), (TORRIJOS HERRERA, OMAR)  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005